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E.O. 12958: N/A

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SUBJECT: Post Response to OPIC Request for Comment on WM Mining Company Application for OPIC Finance

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Ref: State 65871

¶1. (SBU) As per ref paragraph 2, Post supports WM Mining application for OPIC financing of the Big Bend Placer gold-mining project (BBP) in Zaamar Soum (county) of Tov Aimag (province). Post has received detailed briefings of the project aims, technologies, environmental, and social impacts from representatives of WM Mining, the Government of Mongolia, and OPIC. Based on what we have learned, we are confident that the project will comply with both Mongolian and USG standards for a project of this nature. In addition, BBP has the potential set a new benchmark for social and environmentally responsible mining in the controversial placer sector that can raise how Mongolian officials develop and execute both laws and regulations for this part of Mongolia's mining sector.

¶2. (SBU) As per ref paragraph 4, Post responds as follows:

--Recent Economic developments in Mongolia that may affect the project: Mongolia, like most countries, has been seriously affected by the ongoing economic crisis. Copper exports, a mainstay of the Mongolian budget, have declined, as have other raw material exports.

The banking sector has all but stopped lending in an effort to shore up balance sheets in advance of weak loan portfolios. In such an environment, any legitimate revenue stream, such as BBP, is welcome by both the government seeking taxes and the public seeking employment.

--Information Post has on BBP and its sponsors: Post has no additional information on BBP and its sponsors that it has not already provided to OPIC.

--Information regarding the mining sector in Mongolia. For such a small country, Mongolia has a very large set of complex issues linked to mining. These range from the role of the state in the mining sector to controversies surrounding the environmental and social impact of placer mining by large firms and artisanal miners. However, the placer sector, other than the controversial windfall profits tax on gold (68 percent for each dollar over USD850 per ounce), has been stable since 2000. The national, provincial, and municipal governments understand the placer process and its implications, and have the capacity to implement regulations to steer the process appropriately. The public, also familiar if uneasy about placer mining, accepts the process and its outcomes. In short, while other mining projects remained mired in political disputes among politicians and Mongolia's neighbors, such small

scale projects as BBP progress through the system from development to production. (Note: The poster child for such a dispute is the mega Oyu Tolgoi copper and gold mining project being promoted by Canadian junior mining company Ivanhoe Mines Mongolia and international mining giant Rio Tinto. The project, despite three separate attempts since 2002 by the GOM and the firms to reach agreement remains in serious dispute with no end in sight. End Note.)

--Competitors in the sector: The Mongolian placer sector is populated mostly by Chinese, Russian, and Mongolian players, with the lion's share going to Mongolians and Russians. However, BBP would have no competition among other placer miners -- in the sense that one gold miner will sell gold at a lower price than another -- because they do not compete in that way for this particular commodity. BBP's advent into the system will not upset any of the pricing or sales arrangements typical of this sector's established players.

MINTON